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SUBJECT: SALVADORAN BANKS "VOLUNTARILY" REDUCE CREDIT CARD  
RATES

REF: SAN SALVADOR 80

11. (U) SUMMARY. ABANSA, the Salvadoran banking association, announced February 11 that Salvadoran banks had "voluntarily" lowered the maximum interest rate for credit cards from 49 percent to 39 percent. The announcement concluded nearly two months of intense negotiation between the banking sector and the government and staved off government-imposed interest rate caps. END SUMMARY.

12. (SBU) ABANSA Executive Director Carlos Caceres announced the reduction of the banks' top rate to the press on February 11. President Saca's Alianza por la Familia had called for an interest rate cap, a move the banks feared would come through government fiat and potentially cap interest rates below the "break-even" point for certain categories of cards. The banks, through ABANSA, negotiated with the Secretario Technico (President's Chief of Staff) Eduardo Ayala Grimaldi and Superintendent of the Financial System for nearly two months to produce an agreement for "voluntary" reductions and new transparency measures, including a simplified interest rate schedule that will be published more frequently. Post maintained frequent contact with the banking sector and GOES officials. The Ambassador raised the issue with Ayala in late January (reftel).

13. (SBU) COMMENT: Both the Government of El Salvador and the banks can claim some degree of victory. The government appears to have "stood up" to the banks, and forced them to lower rates "for the benefit of the consumer" in an election year. The banks avoided a mandated interest rate cap, which might have been difficult to lift especially under a new government in 2009. The banks also kept the rate high enough to maintain profitability; otherwise, at least one major U.S. bank had speculated about abandoning the Salvadoran market entirely. While negotiations ended with both parties satisfied if not happy, the attempt at interest rate caps remains part of a troublesome policy trend of sacrificing long-term economic principles or short-term political gain (reftel).  
GLAZER